

Partner Instructions for Schedule K-1 (Form L-1065)

GENERAL INFORMATION

A partner with income from a partnership with business activity in Lansing is required to file a Lansing income tax return unless: (1) the partnership elects to pay Lansing income tax on behalf of all partners; and (2) the partner has no other income taxable under the Lansing income tax ordinance. This applies to all types of partners, individuals, corporations and partnerships.

TAX PAID BY THE PARTNERSHIP ON BEHALF OF PARTNER

If the partnership elects to pay tax on behalf of its partners, a partner may claim the share of tax paid, Schedule K-1 (Form L-1065), Part IV, item T, as a tax payment on the partner's Lansing income tax return.

CORPORATION PARTNERS

A corporation partner may or may not have nontaxable partnership income depending on where the business activity of the partnership takes place and the type of income flowing through from the partnership. A corporation partner should follow the instructions for filing a Lansing corporation income tax return to reporting and pay Lansing income tax on the taxable partnership income.

PARTNERSHIP PARTNERS

A partnership partner may or may not have nontaxable partnership income depending on where the business activity of the partnership takes place and the type of income flowing through from the partnership. A partnership partner should follow the instructions for filing the Lansing partnership income tax return.

INDIVIDUAL PARTNERS (RESIDENTS AND NONRESIDENTS)

A resident, nonresident or part-year resident partner filing a Lansing return should follow the return instructions when preparing their return. Form L-1040, lines 1 through 16, uses a three column format for reporting Income: column A is used to report federal income; column B is used to report exclusions and adjustments to income; and column C is used to report Lansing taxable income.

A partner should first complete his/her federal return. After completing the federal return the partner should: first enter the income reported on Form 1040, lines 7 through 22, on Form L-1040 in column A; the partner should then compute the exclusions and adjustments allowed for each income line of the Lansing return and enter them in column B; next, the partner should calculate the Lansing taxable income (column C) for each income line by subtracting the exclusions and adjustments (column B) amount from the federal income (column A); and then, the partner should prepare the remainder of the return.

Generally, a resident partner will have no exclusions and adjustments to partnership income.

A nonresident partner may or may not have exclusions and adjustments depending on where the business activity of the partnership takes place and the type of income flowing through from the partnership.

A partner who is a part-year resident must follow the resident reporting instructions for the portion of the partnership income earned while a resident, and follow the nonresident instructions for the portion of the partnership income earned while a nonresident. A separate Schedule K-1 (Form L-1065) should have been received from the partnership for income in each residence status.

Computing Exclusions and Adjustments

Exclusions and adjustments to an individual partner's income are computed and reported separately for each income line of the return form. For example, the ordinary income exclusions and adjustments reported to the partner on Schedule K-1 (Form L-1065), line 1, column B, are included in the exclusions and adjustments reported on the partner's Form L-1040, line 11, column B.

Exclusions and adjustments to partnership income reported on Schedule K-1 (Form L-1065), column B, are reported on the exclusion and adjustment schedules for each type of income for Form L-1040, column B, lines 2, 3, 7, 8 and 11 as follows:

Schedule K-1 (Form L-1065)	Exclusion and Adjustment Schedule	Form L-1040
Line 5, column B	Excludible Interest Income	Line 2, col. B
Line 6, column B	Excludible Dividend Income	Line 3, col. B
Line 8, column B	Exclusions and Adjustments to Capital Gain or (Loss)	Line 7, col. B
Line 9, column B	Exclusions and Adjustments to Capital Gain or (Loss)	Line 7, col. B
Line 10, column B	Exclusions and Adjustments to Other Gains or (Losses)	Line 8, col. B
Line 1, column B	Exclusions and Adjustments to Income from Rental Real, Royalties, Partnerships, S Corporations, Trusts, Etc.	Line 11, col. B
Line 1a, column B		Line 11, col. B
Line 2, column B		Line 11, col. B
Line 3, column B		Line 11, col. B
Line 4, column B		Line 11, col. B
Line 7, column B		Line 11, col. B
Line 11, column B		Line 11, col. B
Line 12, column B		Line 11, col. B
Line 13, column B		Line 11, col. B
Line 20, column B		Line 11, col. B

After completing the exclusions and adjustments schedules the partner reports the exclusions and adjustments on Form L-1040, column B, on the line for the type of income excluded or adjusted.

Differences in Reporting Between Federal Schedule K-1 (Form 1065) and city Schedule K-1 (Form L-1065)

There are differences in reporting certain partnership income items between federal Schedule K-1 (1065) and the Lansing Schedule K-1 (L-1065). Explanations for these items follow.

Line 1. Ordinary business income (loss) from other partnerships, estates and trusts included in the partner's Schedule K-1 (1065), line 1, is not included in the partner's Lansing Schedule K-1 (L-1065), line 1. Line 1a was added to the Lansing Schedule K-1 (L-1065) to properly report this income. The Line 1a adjustment amount to report in column B for this income is taxable income reported in column C multiplied by a negative one (-1). The reason is that the other partnership's business allocation percentage is used to allocate this income for nonresident and corporation partners.

Line 12. Section 179 expenses reported on the partner's Schedule K-1 (1065), line 12, are included in amount reported on Schedule K-1 (L-1040), line 1. Therefore an adjustment must be made to remove reporting of Section 179 expenses on Schedule K-1 (1065), line 12.

Line 13. Other deductions reported on Schedule K-1 (L-1065), line 13, column A, are deductions used to determine income included on an income line of the partner's Form 1040 (lines 7 to 21). An example is deductions from royal income, line 13, code I.

Line 20. Other information reported on Schedule K-1 (L-1065), column A, line 20, is information used by the partner to determine income included on an income line of the partner's Form 1040 (lines 7 to 21). An example of is recapture of a section 179 deduction.

Deductions Allowed

Deductions allowed on the Lansing return of a partner are reported by the partnership on Schedule K-1 (Form L-1065), Part IV. These deductions may be claimed on the partner's city return, Form L-1040, page 2, Deductions Schedule, lines 1 through 6.

Credit for Tax Paid by Partnership to another City

If the partnership elects to pay tax on behalf of its partners to another city, an individual resident partner may claim a tax credit for tax paid to the other city. The partner's share of the amount of tax paid to the other city is reported on Schedule K-1 (Form L-1065), Part IV, item T.